

Service Date: December 13, 1983

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

* * *

IN THE MATTER Of The Application)	
Of MONTANA-DAKOTA UTILITIES COM-)	UTILITY DIVISION
PANY For Authority To Establish)	DOCKET NO. 83.9.68
Increased Rates For Electric)	INTERIM ORDER NO. 5036
Service.)	

FINDINGS OF FACT

1. On September 30, 1983, the Montana-Dakota Utilities Company (MDU Company, Applicant) filed with the Commission a general rate increase application for electric service. The filing was assigned Docket No. 83.9.68.

2. The application seeks an annual increase in revenues of \$8,731,439. Rate schedules filed with the application reflect an overall increase of 35.8% for electric service.

3. Included in the general filing was a request for interim relief in the amount of \$2,972,304.

4. Pursuant to the Commission's rules on interim rate increases, ARM. Sections 38.5.501, et seq., Applicant has given proper notice of its interim rate increase request. Such notice was given to the Montana Consumer Counsel (MCC), parties to Applicant's most recent general rate increase application, and to media of general dissemination statewide. The notice advised interested parties to advise the Commission quickly of any comments relative to the request.

5. In its motion for temporary rate increase, MDU stated that the amount of the requested interim relief has been calculated based upon the adjustments, methodologies, and rate of return contained in the Company's last Montana general electric rate order (Docket No. 81.1.2, Order No. 4799bj).

PUBLIC SERVICE COMMISSION ADJUSTMENTS

Unamortized Gain

6. In Order No. 4918b of Docket No. 82.6.40, the Commission reduced rate base by the unamortized gain on reacquired debt. Order No. 4918b pertained to a gas case, but provided for allocation of the adjustment to both the gas and electric operations of MDU. The Commission views such an adjustment as a known and measurable change since electric Docket No. 81.1.2, and, therefore, finds a rate base reduction for the unamortized gain on reacquired debt to be proper for interim purposes. Using a methodology similar to that approved in Order No. 4918b of Docket No. 82.6.40, the resulting adjustment is a decrease in rate base in the amount of \$267,344.

Prepayments

7. In its interim filing, MDU included prepayments as an element of rate base. The approved rate base in Order No. 4799b of Docket No. 81.1.2, however, did not include prepayments and MDU had not proposed its inclusion for consideration in its filing. The Commission believes that prepayments should not be included in rate base for interim purposes until the issue has been decided. The Commission, therefore, finds a reduction in

rate base in the amount of \$27,677 to reflect the exclusion of prepayments to } e proper in this interim proceeding.

Amortization of Pre-1974 Gain

8. In Order No. 4799b of Docket No. 81.1.2, the Commission included an adjustment for amortization of pre-1974 gain on debt reacquired at a discount. Applicant did not include such a calculation in this interim filing. In keeping with the interim rules, the Commission finds such an adjustment to be proper in this interim proceeding. The resulting adjustment is \$14,000, as an increase to net operating income to reflect the pre-1974 gain on reacquired debt.

Labor Expense

9. In the calculation of labor expense, Montana-Dakota Utilities Company included an addition of commissions, bonuses, overtime, part-time and temporary labor, and other. The Commission finds that for interim purposes the elements of commissions and other should be eliminated in the calculation of the percentage increase of labor expense from 1982 to the end of 1983 as a known and measurable change. The commissions related greatly to the non-utility activity of appliance sales, and, therefore, should not be included as a viable component in determining the 1983 percentage increase to electric utility labor expense. The labor component of "other" was unexplained, and, therefore, cannot be included in the calculation of 1983 labor expense percentage increase because the component is unidentified as relating to the electric utility. The Commission finds a resulting decrease to labor expense in the amount of \$21,010 to be proper in this interim proceeding.

Payroll Taxes

10. The Commission's adjustment to labor expense, as described in Finding of Fact Paragraph No. 9, necessitates a corresponding adjustment to payroll taxes. The Commission finds, therefore, a reduction in payroll taxes in the amount of 84,522 in conjunction with the aforementioned labor expense adjustment to be proper in this interim proceeding.

Power Supply Adjustment

11. Included in the Company's proposed power supply expense adjustment is a decrease of intersystem sales, which acts as an offset to power supply expense. This decrease in intersystem sales remains largely unexplained at the time of this Interim Order. The Commission believes that such a decrease in intersystem sales could be controverted and, therefore, chooses not to accept MDU's proposed reduction in such sales arbitrarily in this interim proceeding without first having input from the other parties in the case. Nonacceptance of MDU's proposed intersystem sales adjustment results in a \$5,391 reduction in power supply expense, which the Commission determines to be proper in this interim proceeding.

Rate Case Expense

12. In its interim filing, MDU estimated rate case expenses associated with this docket to be \$175,000, based, apparently, on Docket No. 81.1.2 actual rate case expenses of \$164,969. The Commission is concerned by the magnitude of these estimated expenses and the actual figures for the previous docket. In

Docket No. 81.1.2, MDU's booked rate case expense was approximately three times as large as the total estimated expense, which raises some doubts concerning the estimation process and the care which is taken to hold down this expense to a reasonable level. The Commission believes that this is an issue which should be addressed thoroughly by the parties in this case. Certain aspects of this expense, such as the marginal cost study, are certainly costly, but some data should logically be already available if the same firm is performing the study. MDU claims to hold down expenses as well as it possibly can in an effort to provide its ratepayers with the best possible service. In an effort to show its concern for this expense, the Commission determines that the estimated expense level of \$175,000 is unacceptable for interim purposes. Until this issue can be resolved in the Final Order in this docket, the Commission finds an increase in rate case expense over the amount of unamortized actual rate case expense from the previous docket to be unacceptable for interim purposes. A decrease in rate case expense in the amount of \$34,058 is, therefore, proper in this interim proceeding.

Coyote Labor Expense

13. The Company's adjustment eliminating a portion of Coyote operation and maintenance (O&M) expenses included labor expense related to the Coyote operation. In doing so, however, MDU used 1982 actual labor figures without showing the effect of annualizing increased labor expense levels. This lack of annualization would enable MDU to recoup disallowed Coyote labor expense , in the amount of the annualized portion for interim purposes. In . order to show the full effect of the disallowance of 30Mw associate with the Coyote plant, the Commission finds the disallowance of the annualized Coyote labor expense to be proper rather than the disallowance of just the actual 1982 labor figures for interim purposes. The resulting adjustment is a decrease in labor expense in the amount of \$18, 359, and a related payroll tax decrease in the amount of \$1, 230.

Pro Forma Interest Expense

14. Using the adjusted rate base, the Commission calculated an adjusted tax effect of interest on construction. By utilizing the approved interim rate base and the weighted cost of long-term debt approved in Order No. 4799b, the Commission finds an increase to Montana Corporation License Tax in the amount of \$728, and an increase to Federal Income Tax in the amount of \$4,629 to be proper in this interim proceeding.

Revenue Requirement

15. The following table shows that additional annual revenues in the amount of \$2,808,422, are needed by the Applicant

in order to provide the opportunity to earn an overall return of 10.23 percent.

	<u>MDU Interim Pro Forma</u>	<u>Total PSC Adjustment</u>	<u>Approved Interim Pro Forma</u>	<u>Increase Req'd For 10.23% Return</u>	<u>Total</u>
Operating Revenues	\$24,905,848	\$ 0	\$24,905,848	\$2,808,422	\$27,714,270
Expenses:					
Fuel and Purchased Power	8,039,042	(5,391)	8,033,651		8,033,651
Operating & Maint.	<u>7,401,647</u>	<u>(73,427)</u>	<u>7,328,220</u>		<u>7,328,220</u>
Total O&M	15,440,689	(78,818)	15,361,871		15,361,871
Depreciation	2,917,030	0	2,917,030		2,917,030
Taxes Other Than Income	1,187,270	(5,752)	1,182,518	2,808	1,184,326
State Income Taxes - Current		6,436		189,379	
Federal Income Taxes - Current		<u>40,905</u>		<u>1,203,468</u>	
Total Current Income Taxes	(901,813)	47,341	(854,472)		538,375
Deferred Income Taxes	1,182,985	0	1,182,985		1,182,985
Investment Tax Credits	939,890	0	939,890		939,890
Amortization of Investment Tax Credits	<u>(13,131)</u>	<u>0</u>	<u>(13,131)</u>		<u>(13,131)</u>
Total Operating Expenses	\$20,752,920	\$ (37,229)	\$20,715,691	\$1,395,655	\$22,111,346
Operating Income	\$ 4,152,928	\$ 37,229	\$ 4,190,157	\$1,412,767	\$ 5,602,924
Amortization of Pre-1974 Profit on Debt Re-acquired at Discount	\$ _____	\$ 14,000	\$ 14,000	\$ _____	\$ 14,000
Total Available for Return	<u>\$ 4,152,928</u>	<u>\$ 51,229</u>	<u>\$ 4,204,157</u>	<u>\$1,412,767</u>	<u>\$ 5,616,924</u>
Rate Base	<u>\$55,201,411</u>	<u>\$(295,021)</u>	<u>\$54,906,390</u>		<u>\$54,906,390</u>
Rate of Return	<u>7.52%</u>		<u>7.66%</u>		<u>10.23%</u>

CONCLUSIONS OF LAW

1. Applicant, Montana-Dakota Utilities Company, is a corporation providing service within the State of Montana and as

such is a "public utility" within the meaning of Section 69-3-101, MCA.

2. The Montana Public Service Commission properly exercises jurisdiction over the Applicant's Montana operations pursuant to Title 69, Chapter 3, MCA.

3. Section 69-3-304, MCA, provides, in part, "The Commission may, in its discretion, temporarily approve increases pending a hearing or final decision."

4. The rate levels and spread approved herein are a reasonable means of providing interim relief to Montana-Dakota Utilities Company. The rebate provisions of Section 69-3-304, MCA, protect ratepayers in the event that any revenue increases authorized by this order are found to be unjustified in the final order in this docket.

ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS THAT:

1. Applicant, Montana-Dakota Utilities Company, is hereby granted authority to implement on an interim basis increased rates designed to generate \$2,808,422 in additional revenues on an annual basis.

2. Montana-Dakota Utilities Company is to file revised rate schedules reflecting a uniform percent increase to all rates and charges.

3. Rate schedules filed shall comport with all Commission determinations set forth in this Interim Order.

4. Interim revenues granted herein are subject to rebate should the final order in this docket disapprove this interim

revenue increase. Pursuant to the amendment of Section 69-3-302(2), MCA, approved by the 48th Legislature, and effective October 1, 1983, the rebate interest rate will be the cost of equity capital last determined by the Commission, which is 14.25 percent.

5. Nothing in this Interim Order precludes the Commission from adopting in its final order, after review of the entire record in this docket, a revenue requirement different from that contained in this order.

6. The interim relief granted in this order is to be effective for electric service rendered on and after December 12, 1983.

DONE IN OPEN SESSION at Helena, Montana, this 12th day of December, 1983, by a 5 - 0 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

THOMAS J. SCHNEIDER, Commissioner

JOHN B. DRISCOLL, Commissioner

HOWARD L. ELLIS, Commissioner

CLYDE JARVIS, Commissioner

DANNY OBERG, Commissioner

ATTEST:

Madeline L. Cottrill
Commission Secretary

(SEAL)